The property tax rate is $ 1.43 per square foot per year ($/sf/yr) and is listed for rate elements 17, 18, and 19 (line 27 of the TRP sheets). The calculation for $1.43 is shown in Table D and uses the following formula:

$ 1.43/sf/yr = {Sum of} [states property tax rate $/sf/yr x (rentable sq.ft. for each state)/31,719,250)]

where: state property tax rate is from TABLE C

31,719,250 = Total rentable square footage TABLE B

rentable sq.ft. for each state taken from TABLE B

TABLE D

STATE	Property Tax Rate $/sf/year		Ratio of state sq.ft. to U S WEST total sq.ft.		Portion of weighted average
Arizona	2.27	x	1,875,487 ÷	31,719,250	= 0.1342
Colorado	1.54		5,495,986	31,719,250	0.2668
Iowa	1.42		3,086,550	31,719,250	0.1382
Idaho	1.01		584,460	31,719,250	0.0186
Minnesota	2.86		4,448,703	31,719,250	0.4013
Montana	2.37		778,439	31,719,250	0.0581
North Dakota	0.80		888,179	31,719,250	0.0224
Nebraska	0.38		2,385,721	31,719,250	0.0286
New Mexico	0.92		1,273,823	31,719,250	0.0370
Oregon	1.29		2,311,264	31,719,250	0.0940
South Dakota	1.29		931,387	31,719,250	0.0379
Utah	1.19		2,067,856	31,719,250	0.0776
Washington	0.71		4,581,069	31,719,250	0.1025
Wyoming	0.36		1,010,326	31,719,250	0.0115

SUM TOTAL OF WEIGHTED AVERAGE OF TOTAL U S WEST PROPERTY TAX RATE 14 STATES = $1.43/sf/yr

MAINTENANCE EXPENSE (Line 33 of the TRP sheet) is the U S WEST base operating cost (Item 3 of the Base Rent) for Floor Space Function Recurring Rate Elements 17, 18, and 19 at $3.98/sf/yr. The U S WEST base operating cost is a weighted average of the individual states' 1992 annual maintenance expenses. These expenses are operating costs and do not include computer power, transmission power, or capital replacement costs for building equipment items such as air conditioning compressors and other units of property.

The weighted average of $ 3.98/sf/yr is calculated using the following TABLE E that identifies base operating costs by state and the TOTAL square footage of rentable central office space in U S WEST.

TABLE E

STATE	BASE OPERATING COST $/SF/YR [19]	C.O. RENTABLE AREA SQ.FT.
Arizona	4.76	1,357,257
Colorado	4.44	2,073,198
Iowa	3.15	1,440,406
Idaho	3.20	487,764
Minnesota	4.14	2,074,331
Montana	3.79	542,086
North Dakota	2.63	361,877
Nebraska	3.33	687,563
New Mexico	5.20	747,569
Oregon	3.88	870,447
South Dakota	6.17	421,928
Utah	2.84	786,411
Washington	3.62	1,789,793
Wyoming	4.39	344,826
TOTAL C.O. sq.ft.		13,985,456

The weighted average of $3.98/sf/yr is calculated using the following formula:

$3.98/sf/yr = Sum of {(Base operating cost by state x C.O. rentable area by state)/13,985,456 sq.ft.}

where; Base operating cost (which does not include computer power or transmission power) and C.O. rentable area are from TABLE E

13,985,456 SQ.FT. = the total rentable C.O. area in U S WEST 14 state region.

[19]In this Table, the base operating costs do not include computer power or transmission power costs.

(2) "LECs must explain whether investment amounts are calculated on a prospective basis, embedded basis, or some other basis. LECs must also justify the depreciable lives for each item of equipment listed in the TRP. In addition, LECs must justify the percentage cost of money used in its rate calculation, as displayed on each TRP chart."[20]

The investment amounts are calculated on a forward-looking or prospective basis, i.e., what investments would be provided for each function if it were to be installed tomorrow. The investments included consider Long Run Incremental Cost ("LRIC") methodology.

Since the depreciable life is calculated for each state, there is not a U S WEST average life input in the Capital Cost Model ("CCM"). The output of the CCM for each state is weighted to provide a U S WEST-average capital cost. Since so many of the inputs to the CCM interrelate to each other, it is impossible to provide an exact life.

However, the following lives were calculated using the same method as we use for the output of the CCM for each state in calculating a weighted average. This will give an approximation of the weighted average life.

Account	Weighted Life
2441	52.29 Years
2232.2, 2232.3	11.46 Years
2212	16.63 Years
2422.12, 2422.22	25.0 Years
2426.2	20.0 Years

[20] Investigation Order at 10, Item (b)(2).

A brief discussion for each account follows:

Conduit (2241)

Fiber deployment will decrease current conduit usage. The proposed life was based on a composite of 65% of investment living 65 years, 15% of investment living 30 years and 20% of investment living 20 years as defined by subject matter experts.

Digital Circuit (2232.2, 2232.3)

Utilizing life analysis with input from subject matter experts, the proposed life of 10.5 represents the effects of sustained optical multiplexing equipment and the subsequent retirement of copper based digital carrier systems.

Digital Switching Equipment (2212)

Our proposal represents conditions such as accelerated introduction of new chip technology, new generation digital switching equipment and fiber optic transport with SONET architecture. This equipment will evolve over time and as such generate large interim retirements.

Underground Non-metallic (2422.12, 2422.22)

Industry trade journals and technical publications with support from subject matter experts estimated life expectancy of silica based fibers of 20 to 22 years. A conservative estimation of 25 years was proposed.

Intrabuilding Non-Metallic (2426.2)

Our proposal of 20 years represented life factors similar to the Intrabuilding Metallic account. This account is impacted by competition and the dependency on customer desires.

The EIC filing was made in conformance with FCC depreciation guidelines, incorporating historical experience, subject matter expert input and industry studies.

U S WEST uses the same incremental cost of capital rate for cost studies and economic analyses. Appendix C is a description of the assumptions and methodologies which reflect the rationale for use of an 11.5% cost of capital for cost studies and economic analyses. This is composed of 13.4% estimated cost of equity and 8.5% incremental cost of debt, weighted by U S WEST's projected future financing mix of 38% debt and 62% equity.

These capital costs are reviewed quarterly to incorporate the most current economic conditions. The cost of incremental capital is updated by U S WEST when the composite cost of capital varies by 50 basis points or more. U S WEST's analysis shows that in 1992 the overall cost of money did not change by 50 basis points (equivalent to .5%) or more and remained at 11.5%.

The Bureau's request that LECs, in this inquiry, "justify the depreciable lives for each item of equipment listed in the TRP."[21] This proceeding is an inappropriate forum in which to require such a justification. A formal process is used for determination of depreciable lives. U S WEST follows this process which, as described below, includes action by the Bureau, State Commissioners and U S WEST.

The Commission has described the process used for the setting of depreciation lives as follows:[22]

---

[21] Investigation Order at 10, Item (b)(2).

[22] See In the Matter of the Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934, as amended for: U S WEST Communications, Inc., et al., Memorandum Opinion and Order, 8 FCC Rcd. 816 (1993).

> It is our practice to review and revise each carrier's depreciation rates and amortizations once every three years. In doing so, we review depreciation rates for approximately one-third of the larger carriers each year. Our review procedures are as follows: (a) carriers submit depreciation studies, which consist of a variety of data related to the carriers' recent plant retirements and plans for future plant retirements along with their preliminary rate proposals; (b) the Bureau independently analyzes carriers' data and proposals and prepares its own preliminary rate proposals, which are forwarded to the state commissions and the carriers; (c) representatives from the Bureau, the state commissions and the carriers then meet to discuss the various proposals (i.e., the three-way meetings), and at the conclusion of these meetings, the Bureau makes its recommendations; (d) the carriers then formally file for revised depreciation rates that may or may not agree with the Bureau's proposals; and (e) the Bureau issues a Public Notice requesting comments on the proposed depreciation rate changes.[23]

Since U S WEST both participates in this depreciation rate-setting process, and conforms our rates to those established in the process, no further justification of the depreciable lives chosen for the equipment listed in the TRP is necessary.

> (3) "For each nonrecurring charge that recovers labor costs, LECs must describe each labor function, provide the estimated number of hours required for each function, describe the method of estimation, and provide the estimated labor costs. LECs must describe whether the estimated labor costs reflect only wages, wages plus benefits, wages plus benefits plus loadings, or whether these costs are estimated on some other basis. If loadings are included in labor costs, LECs must describe the loadings in detail and what portion of the reported wage rate is attributable to loadings."[24]

---

[23] Id. at ¶ 3.

[24] Investigation Order at 10, Item (b)(3).

The information shown on Appendix D describes each labor function, provides the estimated number of hours required for each function, describes the method of estimation and provides the estimated labor costs for the following rate elements:

Quotation Preparation Fee (QPF)
Physical and Virtual DS1 EIC Channel Termination
Physical and Virtual DS3 EIC Channel Termination

These labor rates reflect wages plus benefits plus loadings. The loadings make up 20% of the labor rate cost on average. Following is a description of loadings:

- Direct Supervision, Administrative & Clerical Support

  Represents the costs of salaries paid to managers below the general supervision level who provide supervision and supportive services for basic functions. Also includes the cost associated with clerical employees who perform office duties of a general nature.

- Other Related Costs

  Represents miscellaneous costs such as printed materials, office expense, travel, etc.

- Other Tools & Work Equipment (PLC labor rates only)

  Represents the expenses associated with general purpose tools used by occupational employees (e.g., hand and power tools, etc.).

- Motor Vehicle Expense (PLC labor rates only)

  Represents the costs associated with vehicle operation and maintenance.

The security, inspector and virtual equipment maintenance rate elements are based on a loaded labor rate which includes

administrative and business fees and is displayed on the TRP charts.

Construction Provisioning Function represents Project Management time for construction of the physical improvement. The following is a description of the methodology U S WEST used to calculate the Construction Provisioning Function labor rate and the results of that methodology.

The time estimate required for each Project Management function for the Construction Provisioning Function rate elements 1 through 17 is identified in the following calculation for Project Management cost:

Wages	= $36.65
Benefits	= $13.54
Other	= $11.00
Property related overhead cost (using assets, motor vehicles, furniture, buildings, office supplies, computer)	= $21.37
Corporation overhead cost	= $13.08

Total Hourly rate for Project Management = $95.64

Rate Element #	Hourly rate times Hours = Proj Mgt cost (rounded)
1	95.64 x 18.2 = $1,740
2	95.64 x 19.97 = $1,910
3	95.64 x 26.66 = $2,550
4	95.64 x 27.70 = $2,650
5	95.64 x 27.70 = $2,650
6	95.64 x 30.37 = $2,905
7	95.64 x 41.40 = $3,960
8	95.64 x 43.23 = $4,135
9	95.64 x 25.51 = $2,440
10	95.64 x 30.63 = $2,930
11	95.64 x 38.58 = $3,690
12	95.64 x 41.71 = $3,990
13	95.64 x 35.02 = $3,350
14	95.64 x 41.03 = $3,925
15	95.64 x 53.32 = $5,100
16	95.64 x 57.29 = $5,480
17	95.64 x 4.18 = $ 400

c. Overhead Cost Information[25]

(1) "In order to evaluate the reasonableness of overhead loading amounts that LECs include in expanded interconnection rates, each LEC must provide information regarding overhead loadings for comparable services. LECs must provide the following specific information. First, each LEC must provide the overhead amounts of overhead factors used to develop each rate element of expanded interconnection service, explain the basis of the overhead amounts or factors, and explain how they were derived. In addition, LECs should justify any 'rounding' of costs included in the filed rates. LECs should provide numbers and associated sources used to compute any overhead ratios. To the extent that overheads vary among expanded interconnection rate elements, the LEC should explain why. Second, each LEC must provide overhead factors for all DS1 and DS3 services it offers, on a service-by-service basis. Thus, overheads for generic DS1 and DS3 services, as well as discounted volume and term services and specialized services, must be provided.

---

[25] Id. at 10, Item (c) (footnote omitted).

> LECs should explain the basis for any difference in overheads (1) among the various DS1 and DS3 service; and (2) between DS1 and DS3 services on the one hand and expanded interconnection services on the other. Third, LECs should explain to what extent expanded interconnection overhead costs were adjusted to prevent double-recovery of overheads by expanded interconnection rate elements, as described in the Special Access Tariff Order."[26]

The Commission's intentions with regard to overhead loadings and EIC tariffs was stated with clarity:

> We . . . require the LECs to justify any deviations from uniform overhead loadings that they propose for pricing connection charges, although we will not specify a particular methodology in advance. . . . Under this approach, if a LEC proposes to price connection charges to reflect fully distributed overhead loadings, we will compare such loadings to the overhead loadings used for other services and require justification for any differences in overhead loadings.[27]

U S WEST methodology for developing and assigning overhead loadings fully complied with this and other Commission directives.

As a first step, U S WEST developed an overhead loading factor for the Special Access category, as discussed and filed in Section 1 of the Description and Justification for Transmittal Nos. 331 and 383. Also included was a Part 69 Workpaper which

---

[26] Id. at 10-11, Item (c)(1).

[27] Expanded Interconnection Order, 7 FCC Rcd. at 7429 ¶ 128 (footnote omitted). These requirements are a slight variation of the new service pricing rules which the Commission adopted in its Part 69/ONA Order. See also In the Matter of Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Sub-elements for Open Network Architecture, 6 FCC Rcd. 4524, 4531 ¶¶ 42-44 (1991).

displayed the overhead loading factor for each rate element that was filed.

U S WEST provided an explanation of any inconsistent overhead loadings filed in its Reply Comments dated April 5, 1993.[28]

In Transmittal No. 383 (one of U S WEST's EIC Transmittals), U S WEST used the new ARMIS factor of 1.72 as the overhead factor, pursuant to requirements of the Commission's Order describing the General Support Facilities ("GSF") reallocation.[29] The Part 69 Workpapers filed in that Transmittal displayed the overhead loadings applied to each rate element. (See Appendix E for a copy of these papers.)

As displayed on these workpapers, the 1.72 overhead was applied consistently across all rate elements, except for the riser and virtual fiber optic cable recurring rate elements. The overhead factor of 1.3 was applied to these rate elements, in order to mirror the current rate level associated with the Entrance Structure recurring rate element (which was filed in Transmittal No. 368 dated June 14, 1993). (That rate element is currently referred to as conduit/innerduct.) That filing resulted in a reduction of the overhead loading factor applied to this rate element. The three rate elements that do not carry the

---

[28]U S WEST Reply at 29-34.

[29]See U S WEST Communications, Inc. Revisions to Tariff F.C.C. No. 1, et al., CC Docket No. 93-162, Order, DA 93-657, rel. June 9, 1993.

1.72 overhead loading are similar in that they are all associated with the leasing and maintenance of facilities.

U S WEST rounded some costs to the nearest dollar. This is not an uncommon practice when working with odd-dollar amounts.

Overhead expenses are those costs which are common to the firm and involve functions which relate to general management of the business. Because these expenses, by definition, are not related to any specific product or service and, therefore, are not included as a direct expense in any Long Run Incremental Cost ("LRIC") study, U S WEST believes this cost methodology ensures there is no double recovery of overheads in the EIC rate elements.

Having provided the relevant overhead cost information regarding EIC service, the Bureau seeks further information regarding overhead loadings of something it claims (without analysis) is a "comparable service"[30] -- DS1 and DS3 services. In making this "comparison" (albeit a faulty one), the Bureau appears to be adopting (at least superficially) arguments previously presented by ALTS, TCG and MFS.[31] Such comparison is inappropriate, both in terms of offerings and economic symmetries.

The comparing of existing mature services (i.e., DS1 and DS3 services) to a new service (i.e., EIC service) solely on the

---

[30]Investigation Order at 11, Item (c) (1).

[31]See ALTS at 8-9; TCG at Appendix B; MFS at iii.

basis of an overhead loading factor is like comparing apples to oranges. It is a fatuous comparison.

When a service is filed as new with the Commission, the overhead factor used is based on the most current ARMIS costs available at the time of the new service filing. As such, a new overhead loading factor is developed yearly, based on the yearly recalculation of ARMIS data.

Therefore, it is clearly capricious to try to compare a current overhead loading factor associated with a new service to a mature service that may be five years old and used an overhead loading factor based on ARMIS information that is also five years old. It ignores and grossly oversimplifies the dynamics of overhead loading factors.

An overhead loading factor is relevant and material only when a service is added for the first time or until the service is included in a price cap basket. Once included in a price cap basket, a mature service (one like U S WEST's DS1 or DS3 service), may change price several times a year as long as those price changes fit within the Commission's rules governing price caps. The fact that rates for mature services, such as DS1 and DS3, may change[32] demonstrates that a resultant overhead loading factor for a mature service, based on rates in effect at any given time, may bear little resemblance to the overhead loading factor that was originally used when the service was new.

---

[32]The Commission's rules allow a maximum change per year (that starts over each year).

Without waiving our objection to the relevancy of the following information, U S WEST herein displays the overhead factors for generic DS1 and DS3 Services. These factors were calculated based on the ratio of total revenues for all rate elements contained in each fixed period, divided by the total costs of said elements.

In reviewing the following display, it should be remembered that U S WEST has fashioned EIC service as a month-to-month service, with no extended term obligations (and no corresponding termination charges should an interconnector determine it is in its best interests to vacate the central office premises). Thus, <u>if</u> any of the overhead loading factors displayed below could be claimed (arguably) as relevant, it is <u>only</u> those pertaining to month-to-month service.

Service	Aggregated Overhead Loadings
DS1 Month-To-Month	2.24
36 Month	1.94
60 Month	1.95
DS3 Month-To-Month	1.77
12 Month	1.77
24 Month	1.64
36 Month	1.65
60 Month	1.53
120 Month	1.65

As shown above, the 1.7211 overhead loading factor used for EIC is similar to the loadings applied to generic month-to-month DS1 and DS3.

(2) "[S]ome LECs have used 'closure factors' in order to include overhead amounts in expanded interconnection

> rates. Closure factors are the ratio between revenues and prospective direct costs for a particular category of service, such as special access, and are applied to the direct costs of a new service (e.g., expanded interconnection) in order to determine rates. LECs that have used closure factors should explain how the use of closure factors results in reasonable estimates of overhead costs for expanded interconnection."[33]

U S WEST did not use closure factors with regard to the costing or pricing of our EIC offering. Thus, this question is not applicable to us.

d. Sample Price Outs

(1) "[W]e require that each LEC provide 'price outs' for the provision of 100 DS1s, as specified in the Sample Price Out Chart in Appendix D of this Order. To calculate the price out, LECs should assume that nonrecurring costs will be amortized over a 5-year period at an 11.25 percent interest rate and that 100 square feet of cage space will be utilized. LECs also should make reasonable assumptions regarding LEC-specific variables (e.g., cable lengths) that must be specified to calculate the price out and identify those assumptions in their filings. LECs may provide additional sample price outs using other assumptions, if they wish, but should explain the basis for these assumptions."[34]

The "comparison" the Bureau attempts to make, i.e., between retail DS1 and DS3 rates, is infirm in its basic assumptions and, thus, in its conclusions. A suggestion for a similar comparison was made by TCG in its Petition to Reject/Suspend.[35] U S WEST debunked both the assumptions inherent in TCG's suggestion and

---

[33] Investigation Order at 11, Item (c)(2) (footnote omitted).

[34] Id. at 11, Item (d)(1).

[35] See TCG at Appendix B.

its resulting conclusions in our Reply.[36] We attach, as Appendix F our price-out and assumptions using the Bureau's model.

Both TCG and the Bureau appear to have some unspoken, yet unyielding, assumption that cannot be substantiated anywhere in the Commission's Expanded Interconnection Orders: that the EIC connection to the LEC network (including floor space rental, power, maintenance, non-recurring installation and improvement charges) must be less than the price of a DS1 or DS3 channel termination.

In addition, both TCG and the Bureau find attractive the totally unfounded (and unrealistic) assumption that all DS1s (and only DS1s) would be provided from an interconnector's EIC leased physical space to a single location (perhaps a single carrier Point of Presence ("POP")).

The attempts by TCG, and others, to compare the total of all the EIC rate elements to existing channel termination rates is fundamentally (and economically) erroneous. An appropriate analysis requires consideration of the entire circuit, from the central office EIC to the remote location. This model takes into consideration the complete circuit, which includes what has been termed by the interconnectors as "bottleneck facilities."

The basic premise of EIC is that the interconnector will obtain a more cost effective means to connect to the LEC network, including gaining access to coveted alleged "bottleneck

---

[36]See U S WEST Reply at 33-34.

facilities." The Commission, apparently, believes that this should, overall, provide a more economic means to reach the high cost, long loop, single location customers, which the interconnector may not be able to economically justify accessing with its own network.

In Table 1 of its Petition to Reject/Suspend, TCG compares, for each LEC, what it asserts are the "retail" prices of 100 DS1 circuits to the "equivalent" costs (for 100 DS1s) of the LEC's proposed collocation services. TCG asserts that the U S WEST price for a package consisting of 100 DS1s, delivered to its retail customers through a combination of DS3 pricing and multiplexing, is $40 per DS1. TCG then compares that "price" figure to what it asserts is a $61 cost per DS1 EICT and related floor space charges, when 100 DS1 EICTs are ordered by a collocator. TCG then argues that:

> The results of TCG's analysis lead to two conclusions. First, LEC collocation rates are unreasonably high and should not be allowed to take effect as filed. Second, the Commission must obtain more detailed cost information, not only about the collocation rate elements, but also about the costs involved in providing LEC high capacity services. There can be no logical explanation for a LEC to charge more for empty central office space than for an entire end to end service.[37]

TCG's conclusion -- "that there is no logical explanation for a LEC to charge more for empty central office space than for an entire end-to-end service" -- is at best disingenuous. TCG's analysis does not compare the cost of empty central office space

---

[37]TCG at 13.

to the cost of a LEC's end to end service. Its comparison includes 100 DS1 EICT network connections, the cost of constructing cages around the collocator's space, power, air conditioning, security, etc.

Moreover, TCG's analysis is fundamentally flawed in several other important respects. TCG's analysis looks only at one of the two channel terminations that are required to provide an end-to-end private line service. As such, the analysis completely ignores what competitive access providers ("CAP") have long argued is the primary benefit of collocation -- access to a LEC's "bottleneck" loop facilities. A more complete analysis would include the savings a CAP realizes when utilizing a LEC's channel terminations to reach an end user (accessed through a collocation arrangement) versus the cost to a CAP of constructing its own facilities to the end user.

CAPs have long argued that their ability to compete with LECs is hampered by the high cost of constructing their own facilities to all of their end users. By ignoring the savings that CAPs will realize from gaining access to LEC channel terminations through collocation arrangements --ignoring the fundamental purpose of collocation -- the TCG analysis seriously understates the benefits of collocation.

On the basis of the above, it is clear that the Bureau is being misled by attempts to compare apples to oranges. Petitioners arguments (though unrelenting) should be rejected.

2. Individual Rate Elements[38]

(a) Nonrecurring Charges for Recurring Costs[39]

(1) "[C]ertain carriers computed nonrecurring charges for central office construction, power installation, or other rate elements based on the present discounted value of recurring costs associated with the capital outlay. Any LEC that developed nonrecurring charges based on discounted taxes, maintenance, or costs other than depreciation expense and cost of money should explain why such rate development is reasonable. Such LECs should also justify the amortization period which they have selected for calculating the present discounted value. Further, if the discount rate used to calculate the present discounted value of recurring costs differs from the interest rate used to calculate the cost of money, or if the depreciable life differs from the period over which the present discounted value is computed, over-recovery could result. Therefore, LECs should also provide the discount rate, the interest rate, the depreciable life, and the time period for computing the present discounted value used in their calculations and justify any difference."[40]

U S WEST computed nonrecurring charges for the entrance enclosure (manhole/handhole), conduit/innerduct, core drill, fiber cable splicing (setup and per fiber spliced), fiber placement (in conduit/riser), riser, -48 volt DC power cable installation and virtual fiber optic cable rate elements, based on the present discounted value of recurring costs associated with the capital outlay. U S WEST used a ten-year amortization period or account life for calculating the present discounted value of recurring costs.

---

[38]See Investigation Order at 12.

[39]See id. at Item (e).

[40]Id. at Item (e)(1) (footnote omitted).

A monthly recurring cost for this amortized period (120 month period) was developed. This monthly recurring charge was reduced to present worth as a one-time payment,[41] using U S WEST's current post-tax cost of money which is 10.29%.

The nonrecurring charges for the construction rate elements were not based on discounted value of recurring costs. All construction costs are recovered before the interconnector moves into the space.

(b) Floor Space Charges[42]

(1) "All LECs should quantify the difference between the cost at book value (embedded cost) and the cost at market value (current or prospective costs) of land and building associated with central offices that offer expanded interconnection service. Each LEC should provide estimates of the average cost per square foot under each method and justify the method it selected in setting its floor space charges."[43]

U S WEST established its floor space rates on market considerations, not on book value or embedded cost. U S WEST has, for some years, had businesses leasing certain portions of our central office space. The lease prices for that space have been set at market value.

In establishing the prices for the leased physical space under EIC, U S WEST began with our existing central office space

---

[41]This is the identical methodology used to calculate "facility other than normal" or "route other than normal" as filed in U S WEST's FCC Tariff No. 2, i.e., Special Construction.

[42]See Investigation Order at 12, Item (f).

[43]Id. at Item (f)(1).

lease rates. U S WEST consulted (verbally) with CB Commercial Real Estate Group, Inc., Brokerage Services ("CB Commercial) as to the reasonableness of U S WEST's proposed rates. Later, U S WEST received written confirmation from CB Commercial that the rates U S WEST was considering were "fair and reasonable."[44] U S WEST also secured a second opinion as to the reasonableness of our proposed rates from Grubb & Ellis,[45] which verified the opinion from CB Commercial.

U S WEST chose to use the three market area approach (and their associated values), rather than averaging those areas and values, because that type of pricing structure is similar to local market space offerings for other interconnector space. Space value does vary by market area, and U S WEST deemed it reasonable and appropriate to reflect those variations in our rates.

Below, U S WEST provides the information that the Bureau seeks regarding book/embedded costs. While the information might be interesting in the abstract, U S WEST maintains that the information is of no relevancy or materiality with regard to our pricing of leased physical space for EIC. Thus, we would object to the Bureau making a determination that such costs should form the basis for the pricing of the real estate component of EIC.

For purposes of complying with the Bureau's inquiry, U S WEST calculated an annualized cost of buildings of $1.412349

---

[44]Appendix G at 2.

[45]See Appendix H.

per square foot per month and an annualized cost of land of $0.080175 per square foot per month. The total annualized cost based on book value = $1.49 per square foot per month. This cost does not include maintenance or property tax. U S WEST applied a common overhead markup of 1.83 to the annualized cost for buildings and land, based on book value, to obtain a price per square foot per month of $2.73:

Annualized Cost of Buildings	= $1.412349/sf/month
Annualized Cost of Land	= $0.080175/sf/month
Subtotal	= $1.49/sf/month

U S WEST overhead loading factor (x 1.83)[46] = $2.73/sf/month

Pursuant to the process described above, U S WEST determined the market value of base rent areas for rate elements 17, 18, and 19 as displayed on the TRP chart for Floor Space Functions as follows:

[46]The 1.83 overhead loading factor was used in U S WEST's Transmittal No. 331 to calculate the Base Rent Area rates.

Market area 1: Space market value is $39.00 x 1.17 = $45.63
monthly (/12) = $ 3.80

Market area 2: Space market value is $31.00 x 1.17 = $36.27
monthly (/12) = $ 3.02

Market area 3: Space market value is $20.00 x 1.17 = $23.40
monthly (/12) = $ 1.95

Average of the above monthly rates (8.77/3) = $ 2.92

Price based on average market = $2.92/sf/month
Price based on Average annualized
cost based on book value = $2.73/sf/month
Quantified difference = $0.19/sf/month

(2) "LECs that have added maintenance costs, administrative costs, or other costs to the market value rental rates to determine filed floor space rates should explain why the market rental rates used did not already include these costs."[47]

U S WEST's "base rent" is the epitome of a "non-bundled" pricing structure. While it does reflect some correspondence to a general commercial rent, and was developed utilizing the benefit of expertise from consultants who regularly deal with real estate space in certain market and geographic areas (see our response to (b)(1) above), the correspondence is not exact.

For example, typical commercial real estate leases/spaces do not include the monthly operation and maintenance levels of service that are routinely provided in U S WEST central offices. Thus, U S WEST requested market pricing information that removed the operating expenses from the market value gross rental rates.

---

[47]Investigation Order at 12, Item (f)(2).